

OVERVIEW

This Audit Report contains 51 Audit Paragraphs including Audit Reviews apart from comments on the Finance and Appropriation Accounts. As per existing arrangement, copies of the draft Audit Paragraphs and draft Audit Reviews are sent to the concerned Secretary to the State Government by the Principal Accountant General (Audit), demi-officially with a request to furnish replies within six weeks. Despite such efforts, for 48 out of 51 Audit Paragraphs and Reviews, no response was received from the concerned Secretary of the State Government.

I An overview of the Finances of the State Government

- The revenue receipts of the Government increased from Rs 20317 crore in 1997-98 to Rs 30093 crore in 2001-02 registering an average trend rate of 10.54 *per cent per annum*.
 - The revenue expenditure increased from Rs 22897 crore in 1997-98 to Rs 38282 crore in 2001-02, showing an average trend rate of 14.21 *per cent per annum*. The revenue expenditure (Rs 38282 crore) during the year exceeded the revenue receipts (Rs 30093 crore) resulting in a revenue deficit of Rs 8189 crore. The Revenue Deficit increased from Rs 2580 crore in 1997-98 to Rs 8189 crore in 2001-02, an increase by 217 *per cent*.
 - Fiscal Deficit increased from Rs 6443 crore in 1997-98 to Rs 10898 crore in 2001-02.
 - The revenue receipt to GSDP ratio after reaching a peak of 11.45 *per cent* in 2000-01 declined to 11.09 *per cent* in 2001-02 with a five year average ratio being 10.65 *per cent*. The revenue expenditure to GSDP ratio witnessed an increase from 12.56 *per cent* in 1997-98 to 14.48 *per cent* in 2000-01 but declined to 14.11 *per cent* in 2001-02 with a five year average ratio being 12.90 *per cent*.
 - The share of economic services in total expenditure declined sharply from 29.84 *per cent* in 1997-98 to 20.96 *per cent* in 2001-02, while the share of general services, interest payments and social services increased. Interest payments and expenditure on general services considered as non developmental, together accounted for nearly 43 *per cent* of total expenditure in 2001-02 as compared to about 34 *per cent* in 1997-98.
 - Return on capital investments in various Government Companies and Corporations was insignificant. On an investment (including loan) of Rs 11155.07 crore at the end of 2001-02, the Government received dividend/interest of Rs 4.53 crore which was less than even one *per cent*.
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- The ratio of State's own tax receipts to the Gross State Domestic Product averaged 7.23 *per cent* during 1997-98 to 2001-02 suggesting that it was possible to raise more resources through better tax compliance. The State Government, however, preferred to go in for more borrowings to meet its increasing revenue deficit with adverse implications for the finances of the Government.
- State Government disbursed House Building Advance to the Government employees at an average interest rate of 8.4 *per cent per annum* by taking loan from Housing and Urban Development Corporation, at 12 *per cent per annum*, entailing an extra interest liability of Rs 126.02 crore.
- During the past five years, all the four indicators of fiscal imbalances showed continuous deterioration over time indicating increasing unsustainability and vulnerability of State finances. Increasing ratio of fiscal liabilities to GSDP and revenue receipts, together with a growing revenue deficit indicated that the State is gradually getting into a debt trap. Similarly, the higher buoyancy of the debt both with regard to its revenue receipts and own resource indicated its increasing unsustainability. There has also been a decline in net availability of funds from its borrowings due to a larger portion of these funds being used for revenue expenditure including debt servicing. The State's low return on investment indicates an implicit subsidy and use of high cost borrowing for investments, which yields very little. The ratio of State's total financial assets to liabilities has also declined indicating that increasingly a greater part of liabilities are without any asset back-up. The balance for current revenue (BCR) of the State continued to be negative.

(Paragraph 1.1 to 1.13 and 1.15)

II Management of guarantees given by the State Government

State Government gives guarantees to promote certain economic enterprises by reducing the credit risk for investors, especially in those activities where the nature of investment involves long gestation periods. While guarantees do not form part of debt as conventionally measured, however, in the eventuality of default by the loanee, this has the potential of aggravating the debt position of the Government. The details of guarantees provided, invocation of guarantees, maintenance of records etc, reviewed in Finance department, and 7 administrative departments disclosed that:

- The guarantees outstanding have increased significantly in recent years and were Rs 52922 crore (175.86 *per cent* of the revenue receipt of the State) as on March 2002, indicating that guarantees given by the Government outstripped the ability to honour them.

- The State Government Corporations/Autonomous bodies/Boards floated Government guaranteed Bonds resulting in increase in guarantees during 1999-2002 by Rs 20109.30 crore. Out of this Rs 924 crore of guarantees were for repayment of previous debts. The Corporations could not raise the entire funds proposed due to poor response by the market on account of the defaults of the Maharashtra Krishna Valley Irrigation Development Corporation and the downgrading of the State Government's credit rating.
- Despite cumulative loss of Rs 2028.32 crore sustained by the Maharashtra State Co-operative Marketing Federation due to operation of the Cotton Monopoly Procurement Scheme, the Government guaranteed Rs 7026.86 crore raised by the Federation.
- The State Government has yet to honour guarantees worth Rs 334.47 crore invoked by three financial institutions and also negotiations were in progress with the financial institutions.
- The State Government extended further guarantees of Rs 251.66 crore to 20 sugar factories despite earlier defaults and invocation of guarantees, during the period 1996-2002.

(Paragraph 1.14)

III Appropriation Audit and Control over expenditure

- The expenditure exceeded the budget provision in 37 grants and 20 appropriations by Rs 2719.11 crore and Rs 963.34 crore respectively. The excess expenditure required regularisation by the State Legislature under Article 205 of the Constitution.
- The Supplementary provision of Rs 10938.58 crore constituted 19.31 *per cent* of the original provision of Rs 56635.40 crore. In 73 grants/appropriations, supplementary provision totalling Rs 1249.73 crore proved unnecessary. Supplementary grants and appropriations totalling Rs 3321.68 crore were obtained in 43 other grants/appropriations when the additional requirement of the fund was Rs 1684.26 crore only. Savings in each of these cases was in excess of Rs 10 lakh.
- Supplementary grants aggregating Rs 5964.28 crore in 20 grants/appropriations proved insufficient by more than Rs 10 lakh in each grant/appropriation leaving an aggregate uncovered excess expenditure of Rs 2970.47 crore.
- Persistent savings in excess of Rs 10 lakh in each grant/appropriation and also 20 *per cent* or more of the provisions occurred in 12 grants/appropriations during 1999-2002.

- Savings of Rs 1 crore and above in each grant/appropriation aggregating Rs 1631.48 crore (16.24 per cent of total savings) in 58 grants and appropriations were not surrendered before the close of the financial year.
- Corpus of the Contingency Fund was temporarily increased from Rs 150 crore to Rs 400 crore with effect from 7 November 2001. Advances totalling Rs 15.80 crore made from the Fund were not recouped till the close of the year.

(Paragraph 2.1 to 2.14)

IV PERFORMANCE REVIEW OF SCHEME/PROJECT

1. Rural Housing Scheme (Indira Awaas Yojana)

Indira Awaas Yojana was the main Rural Housing Scheme implemented in the State. To supplement it five other housing schemes were introduced by Government of India from 1999-2000. A test check of implementation of the schemes revealed that:

- There was short release of additional State share amounting to Rs 49.67 crore under Indira Awaas Yojana resulting in less construction of 17428 houses. There were also delays ranging from two to six months in the release of State matching grants.
- District Rural Development Agencies of Beed, Raigad and Solapur lost Rs 5.04 crore Central assistance due to non-submission of Utilisation Certificates.
- The State lost Rs 4.59 crore of Central assistance due to submission of incorrect claims for houses constructed in hilly areas.
- District Rural Development Agencies diverted Indira Awaas Yojana funds amounting to Rs 1.58 crore.
- Pradhan Mantri Gramodaya Yojana (Gramin Awaas) and Credit-cum-subsidy were poorly implemented in the State.

(Paragraph 3.7)

2. Swarnajayanti Gram Swarozgar Yojana

Government of India restructured the self-employment programmes as "Swarnajayanti Gram Swarozgar Yojana" from 1 April 1999, covering all aspects of self employment.

A test-check of the implementation of the scheme revealed that :

- Scheme funds Rs 1.92 crore were diverted for District Rural Development Agency Administration.

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- An excess expenditure of Rs 1.29 crore was incurred on training by eight District Rural Development Agencies in contravention to prescribed norms.

(Paragraph 3.8)

3. *Functioning of hostels for Backward Class Students*

In pursuance of the constitutional obligation, various educational schemes were being implemented by Central and State Government for providing educational facilities to Backward Class students which included the scheme of opening and running of hostels by Government as well as providing financial assistance to Non-Government Organisations for running the hostels. A test check of the implementation of the scheme revealed that:

- Facility of free lodging/boarding were extended to 43 inmates though they were not actually staying in the hostel.
- Overlapping benefits of supply of books and stationeries were availed of by Medical and Engineering students under three different schemes.
- Non provision of funds for balance work rendered Rs 26.55 lakh incurred on hostel buildings unfruitful.
- Recognition was accorded to 155 new aided hostels without fulfillment of prerequisite conditions.

(Paragraph 3.9)

4. *National Scheme of Liberation and Rehabilitation of Scavengers*

Government of India launched the National Scheme of Liberation and Rehabilitation of Scavengers and their dependants in 1980-81. A test-check of the implementation of the scheme revealed that:

- Ineffective implementation and lack of proper monitoring mechanism resulted in poor achievement of the objectives of the scheme.
- Beneficiaries given training in one trade were not rehabilitated in that trade. Moreover the Corporation did not have any data of total beneficiaries trained and rehabilitated, trade-wise.
- 337 beneficiaries imparted training and given subsidy in Pune and Mumbai did not feature in Survey list of Scavengers.
- In six test-checked districts Corporation extended financial assistance of Rs 31.39 lakh to 233 persons not involved in Scavenging of dry latrines. Survey of Scavengers conducted through two private agencies at a cost of Rs 10.85 lakh was not found correct.

(Paragraph 6.9)

5. Integrated Audit of Irrigation Department

The Irrigation Department failed to achieve any noticeable impact in the utilisation of irrigation potential. Budgetary and expenditure control in the department was grossly deficient; large number of projects were languishing for want of funds and Government was yet to evolve a clear strategy to complete the projects where heavy investments have already taken place. Some of the significant findings are given below:

- Unauthorised financial assistance of Rs 19.72 crore was paid to 6 contractors in violation of contract agreement.
- Out of 32 major and medium projects, 22 projects were still under execution, with a cost overrun of 10 times the original cost.
- Additional irrigation benefit from Wambhori and Bhagda piped canal systems of Mula project may not be possible since the project was undertaken on the basis of estimated yield of water instead of actual available yield of water. Rs 109.01 crore spent on the project would have poor rate of return.
- Contrary to its own decision taken in 1978, Government sanctioned 42 Lift Irrigation Schemes at a cost of Rs 582 crore.
- Rs 2393.19 crore are due to department on account of: i) water charges (Rs 970.93 crore), ii) cost of inter-state projects (Rs 131.98 crore), iii) proportionate capital cost of water reserved for non-irrigation use from other agencies (Rs 762.87 crore), iv) lease rent from Maharashtra State Electricity Board on account of hydroelectric projects (Rs 525.43 crore) and v) Kharland cess (Rs 1.98 crore).
- Out of 57 schemes aided by European Economic Community 21 schemes were left incomplete after incurring an expenditure of Rs 25.26 crore. In 36 schemes programme objectives were not achieved.
- Despite the disagreement of the Finance and Planning Departments, Government created five Irrigation Development Corporations but failed to provide agreed capital contribution. Additional funds raised by these Corporations from the market necessitated release of Rs 2693.79 crore by the Government to meet the interest liability.
- Store management was poor resulting in huge inventory of Rs 41.90 crore including 42550 old spare parts (Rs 27.42 crore), MS pipes (Rs 12.45 crore) and unserviceable steel (Rs 2.03 crore).

(Paragraph 4.1)

V AUDIT PARAGRAPHS***Avoidable expenditure***

i) Three hospitals constructed by Employees State Insurance Corporation at a cost of Rs 25.2 crore at the instance of the State Government were not occupied anticipating huge expenditure for running these hospitals. Though unoccupied, the Corporation deducted Rs 7.68 crore on account of rent from the dues payable to the State Government.

(Paragraph 3.5)

ii) Maharashtra Housing and Area Development Authority released Rs 101 crore to Government/Government Statutory body by obtaining a short term loan from a bank which resulted in a loss of Rs 3.16 crore.

(Paragraph 6.16)

iii) Maharashtra Krishna Valley Development Corporation prepared the estimates without detailed survey and made irregular payment beyond the scope of tender resulting in avoidable additional expenditure of Rs 3.15 crore.

(Paragraph 6.18)

iv) Maharashtra Housing and Area Development Authority's failure to prepare basic documents and Property Registration Cards for plots transferred to individual allottees resulted in avoidable payment of Rs 3.15 crore towards non-agricultural assessment.

(Paragraph 6.15)

v) Despite legal advice, an Executive Engineer failed to file objection before a court within the statutory period, which resulted in avoidable expenditure of Rs 2.43 crore.

(Paragraph 4.2)

vi) The Brihanmumbai Municipal Corporation undertook the work of construction of Aerated Lagoons at Bhandup and Ghatkopar during the year 1995-96. Incorporation of a contradictory clause in the contract resulted in an avoidable extra expenditure of Rs 1.84 crore.

(Paragraph 6.12)

Excess expenditure

i) Incorrect implementation of provisions of Government order resulted in excess release of subsidy of Rs 3.44 crore to Municipal Councils.

(Paragraph 6.10)

ii) Incorrect computation of the price of 100 police Light Vans procured for modernisation of the State Police force on Director General of Supplies and Disposal rate contract resulted in excess payment of Rs 48.90 lakh to the supplier.

(Paragraph 3.4)

Loss of revenue

i) Maharashtra Housing and Area Development Authority lost Rs 7.09 crore in five cases due to unauthorised regularisation of sale of plot, extension of concessions and unintended benefits by flouting rules and regulations, exercise of powers not conferred and beyond authority etc.

(Paragraph 6.14)

ii) Maharashtra Housing and Area Development Authority irregularly allotted land to private developers without proper planning and framing guidelines resulting in loss of Rs 3.92 crore, non-recovery of Rs 5.91 crore and virtual alienation of prime land worth Rs 32 crore with the remote chances of its resumption to the Authority.

(Paragraph 6.17)

iii) Arrears accumulated to Rs 1.54 crore due to non-recovery of license fees from Government employees on overstay in staff quarters.

(Paragraph 3.1)

Unproductive expenditure/Blocking of funds

i) Improper planning/execution of schemes, non-adherence to the provisions contained in the Maharashtra Public Works Manual/Code and mismanagement of contracts by the Maharashtra Jeevan Pradhikaran resulted in excess quantities/extra items and unfruitful expenditure of Rs 17.35 crore.

(Paragraph 6.19)

ii) Abandonment of the already completed Ghatkopar tunnel system under taken by the Sewerage Project department of the Brihanmumbai Municipal Corporation, non-completion of the work of the new tunnel, the subsequent non-commissioning of the completed components of the scheme and non-

provision of items in the estimates resulted in wasteful and avoidable expenditure of Rs 4.57 crore.

(Paragraph 6.11)

iii) Inability to take possession of the completed Smarak hall due to paucity of funds resulted in infructuous expenditure and blockage of funds to the tune of Rs 2.60 crore.

(Paragraph 3.10)

iv) Faulty execution of a minor irrigation tank resulted in expenditure of Rs 2.24 crore remaining largely unfruitful for over 7 years.

(Paragraph 4.3)
